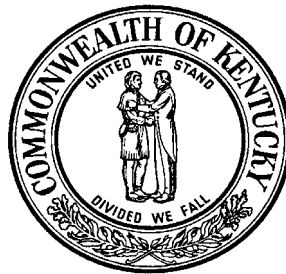


**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

The enclosed report prepared by Berger & Company CPA, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Graves County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Company CPA, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company CPA, PSC, evaluated the Graves County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY SHERIFF

For The Year Ended
December 31, 2001

Berger & Company CPA, PSC, has completed the Graves County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

There was a revenue shortfall of \$8,629 in the prior year. During this year, there were excess fees of \$12,408 as of December 31, 2001. Revenues increased by \$5,203 from the prior year and disbursements decreased by \$15,834.

Report Comments:

- The Sheriff Should Deposit Personal Funds Of \$2,407 To Eliminate A Deficit In His Official Fee Account As Of December 31, 2001
- The Sheriff Should Not Deposit Tax Collections Into His Fee Account
- The Sheriff Should Prepare And Publish An Annual Settlement
- The Sheriff Should Have A Written Agreement to Protect Deposits

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES.....	3
NOTES TO FINANCIAL STATEMENT	6
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS	11
COMMENTS AND RECOMMENDATIONS	15
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	19



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Graves County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Deposit Personal Funds Of \$2,407 To Eliminate A Deficit In His Official Fee Account As Of December 31, 2001
- The Sheriff Should Not Deposit Tax Collections Into His Fee Account
- The Sheriff Should Prepare And Publish An Annual Settlement
- The Sheriff Should Have A Written Agreement to Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script that reads "Berger & Company CPA PSC".

Berger & Company CPA, PSC

Audit fieldwork completed -
July 24, 2003

GRAVES COUNTY
JOHN L. DAVIS, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Federal Grant		\$	22,936
State Grants:			
Methamphetamine Grant			2,592
Drug Task Force Grant			39,442
Kentucky Law Enforcement Foundation Program Fund			20,590
Other State Grants			17,184
State Fees For Services:			
Finance and Administration Cabinet	\$	43,491	
Cabinet For Human Resources		<u>3,897</u>	47,388
Circuit Court Clerk:			
Sheriff Security Service	\$	20,020	
Fines and Fees Collected		<u>4,535</u>	24,555
Fiscal Court			97,827
County Clerk - Delinquent Taxes			4,519
Commission On Taxes Collected			274,356
Fees Collected For Services:			
Auto Inspections	\$	17,940	
Accident and Police Reports		2,083	
Penalties and Add-On Fees		32,746	
Advertising Costs and Fees		4,280	
Serving Papers		29,283	
Dog Licenses		470	
Carrying Concealed Deadly Weapon Permits		<u>7,320</u>	94,122
Other:			
Security		45,118	
Insurance Reimbursements		33,052	
Deputy Reimbursements		1,666	
Miscellaneous		<u>5,024</u>	84,860
Interest Earned			3,157

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN L. DAVIS, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Receipts (Continued)

Borrowed Money:

State Advancement	160,000
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Total Receipts	\$ 893,528
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Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$ 342,902
Transportation of Fugitives	12,629
Other Salaries	77,757

Employee Benefits-

Employer's Share Social Security	35,455
----------------------------------	--------

Contracted Services-

Advertising	50
Vehicle Maintenance and Repairs	34,346

Materials and Supplies-

Office Materials and Supplies	7,793
Uniforms	185

Auto Expense-

Gasoline	38,968
Maintenance and Repairs	67,591

Other Charges-

Conventions and Travel	1,396
Dues	1,246
Postage	4,699
Out of County Security Fees	13,041
Bond	528
Carrying Concealed Deadly Weapon Permits	4,275
Out of County Fees	7,287
Miscellaneous	1,546
Canine	1,552
Internal Revenue Service Penalties	2,407

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
JOHN L. DAVIS, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2001
(Continued)

Disbursements (Continued)

Debt Service:

State Advancement	\$ 160,000
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Total Disbursements	\$ 815,653
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Less: Disallowed Disbursement

Internal Revenue Service Penalties	2,407
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Total Allowable Disbursements	\$ 813,246
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Net Receipts	\$ 80,282
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Less: Statutory Maximum	67,874
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Excess Fees Due County for 2001	\$ 12,408
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The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board of committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the County Sheriff securing the Sheriff's interest in the collateral.

Note 4. Special Fund

On February 9, 1999, the Graves County Sheriff created a Special Fund to further develop the image of the Sheriff's office as long as it doesn't supplant the budgeted items in the fee account. Receipts for this fund come from donations and court ordered payments. As of January 1, 2001, the balance was \$0; during the year funds were received in the amount of \$47,300 and funds were disbursed in the amount of \$46,201, leaving a balance of \$1,099.

Note 5. Subsequent Events

On January 13, 2003, the Office of the County Sheriff obtained a secured note payable to First National Bank in the amount of \$241,496. Purpose of the note was for the purchase of vehicles. The note will be paid in 48 monthly installments of \$5,590 with an interest rate of 5.250%, maturing in January 2007. The Office of the County Sheriff is in compliance with the terms of the agreement as of July 24, 2003.

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SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

GRAVES COUNTY
JOHN L. DAVIS, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 2001

Assets

Cash in Bank	\$ 164,582
Deposits in Transit	7,317
Collected Receivables	<u>47,341</u>
Total Assets	<u>\$ 219,240</u>

Liabilities

Outstanding Checks	\$ 12,670
Paid Obligations:	
State Treasurer-	
State Advance	\$ 160,000
Fuel	11,607
Transfer to Tax Account	14,000
Vehicle Repair	<u>10,962</u>
Unpaid Obligations:	196,569
Graves County Fiscal Court-	
Excess Fees - 2001	<u>12,408</u>
Total Liabilities	<u>\$ 221,647</u>
Total Fund Deficit as of December 31, 2001	<u><u>\$ (2,407)</u></u>

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COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN L. DAVIS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

1) The Sheriff Should Deposit Personal Funds Of \$2,407 To Eliminate A Deficit In His Official Fee Account As Of December 31, 2001

Sheriff Davis is responsible for a \$2,407 deficit in his official bank account as of December 31, 2001. The deficit is the result of \$2,407 disallowed for the payment of Internal Revenue Service penalties. In Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. We recommend the Sheriff eliminate this deficit with a personal deposit of \$2,407.

County Sheriff's Response:

Will make every attempt to keep this from happening again.

2) The Sheriff Should Not Deposit Tax Collections Into His Fee Account

During 2001, the Sheriff transferred \$30,250 of tax collections to his fee account. In September 2001, \$16,250 was transferred from the tax account to the fee account and then repaid during the calendar year. In October 2001, \$14,000 was transferred from the tax account to the fee account and not repaid until 2003. KRS 134.170 states, "...the sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected." We recommend the Sheriff pay actual tax commissions earned to the fee account on a monthly basis.

County Sheriff's Response:

Will attempt to refrain.

3) The Sheriff Should Prepare And Publish An Annual Settlement

The Sheriff has not prepared an annual settlement as required by KRS 134.310(5). KRS 134.310(5) requires the Sheriff to file an annual settlement with the fiscal court when he files his yearly tax settlement, with September 1 being the latest date to file. In addition, the Sheriff did not publish an annual settlement in accordance with KRS 424.220, which requires financial statements be published within 60 days after the end of the calendar year. We recommend the Sheriff comply with these statutes by preparing, publishing, and filing an annual settlement within the proper time periods.

County Sheriff's Response:

Ok.

GRAVES COUNTY
JOHN L. DAVIS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2001
(Continued)

4) The Sheriff Should Have A Written Agreement to Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 10, 2001 the Sheriff had bank deposits of \$4,415,057; FDIC insurance of \$100,000; and collateral pledged or provided of \$5,500,000. Even though the Sheriff obtained sufficient collateral of \$5,500,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

County Sheriff's Response:

Will request from bank.

PRIOR YEAR:

The prior year report contained a comment about the Sheriff seeking additional funding from the Graves County Fiscal Court and a comment about him obtaining a written security agreement from the bank to protect deposits. The Sheriff still needs to obtain a written security agreement to protect deposits.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Graves County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated July 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Personal Funds Of \$2,407 To Eliminate A Deficit In His Official Fee Account As Of December 31, 2001
- The Sheriff Should Not Deposit Tax Collections Into His Fee Account
- The Sheriff Should Have A Written Agreement to Protect Deposits
- The Sheriff Should Prepare And Publish An Annual Settlement


Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company CPA, PSC

Audit fieldwork completed -
July 24, 2003

